

Peoples⁺
1974
**ANNUAL
REPORT**

PEOPLES JEWELLERS LIMITED



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PEOPLES JEWELLERS LIMITED

directors

BERTRAND GERSTEIN, chairman

IRVING R. GERSTEIN

MARVIN GERSTEIN, vice-chairman

SYDNEY M. HERMANT

ROBERT A. KINGSTON, Q.C.

officers

BERTRAND GERSTEIN
chairman of the board

MARVIN GERSTEIN
vice-chairman

IRVING R. GERSTEIN
president

JAMES T. RODDY
vice-president, finance & treasurer

JEAN R. HALDE
*vice-president & general manager,
Guild Stores Division*

ALAN W. SOUTHARD
vice-president, corporate services

DONALD F. DAWE
vice-president, marketing

C. CRAIG COLE
*vice-president, operations
Peoples Stores Division*

DONALD E. BRIDGMAN
vice-president, store planning

PHYLLIS McALLISTER
secretary

head office

181 YONGE STREET, TORONTO, CANADA

transfer agent

CANADA PERMANENT TRUST COMPANY
20 EGLINTON AVENUE WEST, TORONTO, CANADA

PEOPLES JEWELLERS LIMITED

ONE HUNDRED AND FIFTY-NINE STORES AS AT JANUARY 31, 1975

BRITISH COLUMBIA	Peoples Stores	Guild Stores
— Chilliwack.....	1	
— Kamloops.....	1	
— Kelowna.....	1	
— Nanaimo.....	1	
— Prince George.....	2	
— Vancouver.....	7	2
— Victoria.....	2	
ALBERTA		
— Calgary.....	7	4
— Edmonton.....	10	3
— Lethbridge.....	1	
— Red Deer.....	1	
SASKATCHEWAN		
— Moose Jaw.....	2	
— Prince Albert.....	2	
— Regina.....	1	2
— Saskatoon.....	3	1
MANITOBA		
— Winnipeg.....	5	
ONTARIO		
— Barrie.....	1	
— Belleville.....	1	
— Brantford.....	1	1
— Brockville.....	1	
— Chatham.....	1	
— Hamilton.....	4	2
— Kingston.....	2	
— Kitchener.....	1	
— London.....	2	2
— Ottawa/Hull.....	4	1
— Peterborough.....	1	
— Sarnia.....	1	
— Sault Ste. Marie.....	1	1
— Sudbury.....	1	
— Thunder Bay.....	4	
— Toronto.....	18	7
— Windsor.....	5	2
— Woodstock.....	1	
QUEBEC		
— Chicoutimi.....	1	
— Granby.....	1	
— Montreal.....	14	1
— Quebec City.....	2	1
— Shawinigan.....	1	
— Sherbrooke.....	1	1
— Tracy.....	1	
NEW BRUNSWICK		
— Moncton.....	4	
NOVA SCOTIA		
— Halifax.....	6	
TOTAL	128	31

PEOPLES JEWELLERS LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

The fiscal year ended January 31, 1975 recorded the greatest sales and profit in the fifty-five year history of the Company.

Sales for the year were \$47,804,609 as compared with \$35,947,922 the year previous — an increase of 33%. Income before provision for income tax was \$6,078,183 as compared with \$5,021,423 — an increase of 21%. Net income was \$2,878,183 as compared with \$2,456,423 — an increase of 17%. Earnings per share were \$.95 as compared with \$.81.

The increase in net income did not keep pace with the increase in pre-tax profit due to the 10% corporate surtax of some \$173,000 — the equivalent of \$.06 per share.

The year was again one of substantial physical growth. We concluded the year with one hundred and fifty-nine stores, having opened thirty-two stores, twenty-four Peoples and eight Guild, and closed in January 1975 the remaining five leased departments bringing to an end our operations in this area.

This very substantial physical growth required an investment in furniture and fixtures, leasehold improvements, and other fixed assets, of some \$3.3 Million, and a further \$4 Million in base inventory, for a total of some \$7.3 Million. This amount was paid out to Canadian manufacturers of furniture, fixtures, and other equipment, to Canadian labour engaged in the construction of the leasehold improvements, and in the main to Canadian manufacturers of Canadian goods employing Canadian labour. The thirty-two stores in addition provide for the direct employment of some 300 people.

As previously reported the Company and the Toronto Dominion Bank each have a 50% interest in Torcred Developments Limited which has now completed the erection of a fifteen storey office building in Regina, Saskatchewan. The building is fully leased with the ground floor providing for the main branch office of The Toronto-Dominion Bank in Saskatchewan, and a magnificent store for Mappin's-MacKenzie Jewellers.

During the year, the Company placed a new fourteen year 9 $\frac{3}{4}$ % debenture in the amount of \$8 Million with the Prudential Insurance Company of America and repaid the previously outstanding debenture with them. The Company received \$7 Million in September 1974 and the remaining \$1 Million after the year-end in February, 1975. These funds were used to reduce the Company's bank borrowings, substantially strengthening its financial position.

Subsequent to the year-end, the Company entered into an agreement with a Canadian Chartered Bank whereby the Bank will provide a "private label charge card service" for the Company's retail store customers and will purchase the Company's retail store accounts receivable. This new service will provide the Company with one of the most modern and efficient credit facilities of any retail organization.

In February 1975, Mappin's, by special arrangement with Cartier Jewellers of Paris, France, opened in Toronto a unique Boutique for the sale of Cartier Jewellery. The initial response to this new venture has been most enthusiastic.

In January 1975, the Secretary of the Company, Mr. Irwin Koffman retired after faithfully serving the Company for fifty-two of the fifty-five years that it has been in existence. During those fifty-two years he has seen the Company grow from its very smallest beginnings to its present stature, and faithfully served in every area of its activity. His integrity and his dedication to all facets of the Company's activities made him a tower of strength in the early years to Mr. Frank Gerstein, the founder of the Company, and in subsequent years to his sons and grandson who followed as Chief Executive Officer. "Koff" carries with him the admiration, respect, and well wishes of the thousands that were associated with him over those years.

The Board of Directors appointed as Secretary of the Company, Mrs. Phyllis McAllister, who has served the Company faithfully and well for forty-seven years. Also appointed were three Vice-Presidents, Mr. Donald E. Bridgman, Vice-President, Store Planning, Mr. C. Craig Cole, Vice-President, Operations, Peoples Stores Division, and Mr. Donald F. Dawe, Vice-President, Marketing. These new appointments will further strengthen our corporate structure and provide for its continued growth and expansion.

I ended my report to the shareholders last year on a note of confidence. At this point of time I can again report that our experience in the first months of our current fiscal year shows continued growth in sales from comparable stores as well as from new stores and I have every confidence that the current year will again show continued growth in both sales and net income.

Respectfully submitted on behalf of the Board.

BERTRAND GERSTEIN
Chairman of the Board

Toronto, April 4, 1975.

PEOPLES JEWELRY

(Incorporated under the laws of the State of New York)

and Subsidiaries

CONSOLIDATED BALANCE SHEET

with comparative data for 1974

ASSETS		1975	1974
CURRENT ASSETS			
Cash		\$ 79,412	\$ 70,592
Accounts receivable (note 2)		6,623,008	6,996,311
Merchandise, valued at cost or net realizable value, whichever is the lower		19,818,599	13,421,559
Prepaid expenses		150,546	51,431
TOTAL CURRENT ASSETS		26,671,565	20,539,893
LOANS TO EMPLOYEES (note 7)		487,728	245,564
INVESTMENT IN TORCRED DEVELOPMENTS LIMITED (note 6)		300,000	300,000
FIXED ASSETS (note 3)			
Buildings		3,666,384	3,557,971
Furniture and fixtures		9,252,789	7,432,239
Automobiles		106,305	87,465
TOTAL — at cost		13,025,478	11,077,675
LESS: Accumulated depreciation		5,993,489	5,280,451
		7,031,989	5,797,224
Land, at cost		1,614,032	1,614,032
Leasehold improvements, at cost less amortization		3,232,520	2,145,445
TOTAL FIXED ASSETS		11,878,541	9,556,701
On behalf of the Board			
Bertrand Gerstein, <i>Director</i>			
Marvin Gerstein, <i>Director</i>			
		<u>\$39,337,834</u>	<u>\$30,642,158</u>

(the accompanying notes are a

TERS LIMITED

(laws of Canada)

Companies

ET AS AT JANUARY 31, 1975

figures for 1974

LIABILITIES			
		1975	1974
CURRENT LIABILITIES			
Bank indebtedness (note 2)		\$ 7,887,444	\$ 7,203,481
Accounts payable		2,047,306	1,746,084
Income and other taxes payable		1,184,390	947,164
Dividends payable		150,507	150,185
Instalments on long-term debt due within one year		8,000	252,000
TOTAL CURRENT LIABILITIES		11,277,647	10,298,914
DEFERRED INCOME TAXES		627,000	390,000
LONG-TERM DEBT (note 4)		7,171,283	1,919,387

SHAREHOLDERS' EQUITY			
CAPITAL STOCK (note 5)			
AUTHORIZED:	SHARES		
6% cumulative redeemable preferred shares, each of \$100 par value	2,978		
Class A non-voting, participating shares without nominal or par value	4,000,000		
Common shares without nominal or par value	2,000,000		
ISSUED:			
6% preferred shares (1974 — 3,481)	2,978	297,800	348,100
Class A shares (1974 — 2,108,100)	2,114,540	1,759,806	1,739,681
Common shares	895,600	84,233	84,233
		2,141,839	2,172,014
RETAINED EARNINGS		18,120,065	15,861,843
TOTAL SHAREHOLDERS' EQUITY		20,261,904	18,033,857
		\$39,337,834	\$30,642,158

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PEOPLES JEWELLERS LIMITED
and Subsidiary Companies

**CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED JANUARY 31, 1975**

with comparative figures for 1974

	1975	1974
Sales	\$47,804,609	\$35,947,922
<i>Deduct:</i>		
Cost of merchandise sold and all other expenses except those listed below	39,356,540	29,657,577
Depreciation and amortization	1,007,264	727,033
Interest on long-term debt	357,526	146,415
Interest on bank indebtedness	1,005,096	395,474
	<u>41,726,426</u>	<u>30,926,499</u>
INCOME before provision for income taxes	6,078,183	5,021,423
Provision for income taxes	3,200,000	2,565,000
NET INCOME for the year	<u>\$ 2,878,183</u>	<u>\$ 2,456,423</u>
Earnings per Class A and Common share (note 5)	<u>\$.95</u>	<u>\$.81</u>

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED JANUARY 31, 1975**

with comparative figures for 1974

	1975	1974
RETAINED EARNINGS — beginning of year	\$15,861,843	\$14,026,038
<i>Add:</i>		
Net income for the year	2,878,183	2,456,423
	18,740,026	16,482,461
<i>Deduct:</i>		
Dividends — preferred shares	18,215	20,760
— class A shares	422,626	420,738
— common shares	179,120	179,120
	<u>619,961</u>	<u>620,618</u>
RETAINED EARNINGS — end of year	<u>\$18,120,065</u>	<u>\$15,861,843</u>

(the accompanying notes are an integral part of these statements)

PEOPLES JEWELLERS LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED JANUARY 31, 1975

with comparative figures for 1974

	1975	1974
Funds were provided from:		
Operations:		
Net income for the year	\$ 2,878,183	\$ 2,456,423
Add: Expenses which do not require an outlay of funds:		
Depreciation and amortization	1,007,264	727,033
Deferred income taxes	237,000	165,000
	4,122,447	3,348,456
Issue of 9 $\frac{3}{8}$ % Debenture	7,000,000	—
Less: Repayment of 6 $\frac{1}{4}$ % Debenture	1,740,000	—
	5,260,000	—
Issue of Class A shares under option	20,125	42,393
TOTAL FUNDS PROVIDED	9,402,572	3,390,849
Funds were applied to:		
Dividends	619,961	620,618
Purchase of fixed assets (net)	3,329,104	3,888,713
Loans to employees (net)	242,164	(102,341)
Reduction of long-term debt	8,104	251,542
Redemption of preferred shares	50,300	84,300
TOTAL FUNDS APPLIED	4,249,633	4,742,832
Increase (decrease) in working capital	5,152,939	(1,351,983)
Working capital — beginning of year	10,240,979	11,592,962
Working capital — end of year	\$15,393,918	\$10,240,979

(the accompanying notes are an integral part of these statements)

AUDITORS' REPORT

To the Shareholders
Peoples Jewellers Limited

We have examined the consolidated balance sheet of Peoples Jewellers Limited and its subsidiary companies as at January 31, 1975, and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at January 31, 1975, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 14, 1975

Clarkson, Gordon & Co.
Chartered Accountants

PEOPLES JEWELLERS LIMITED

and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JANUARY 31, 1975

1. CONSOLIDATION

The accompanying consolidated statements include the accounts of its subsidiaries, Mappins Limited and J. Alex MacKenzie Limited.

2. ACCOUNTS RECEIVABLE

Accounts receivable have been pledged as security for bank indebtedness and are shown net of the following:

	1975	1974
Allowance for doubtful accounts	\$332,000	\$394,000
Unearned service charges	347,000	378,000

3. FIXED ASSETS AND LEASEHOLD IMPROVEMENTS

Fixed assets are depreciated as follows:

Buildings	—	5% declining balance
Furniture and Fixtures	—	10% straight-line
Automobiles	—	30% declining balance

Leasehold improvements are amortized on a straightline basis over the term of the lease plus one renewal period with the total term not exceeding fifteen years.

4. LONG TERM DEBT

	1975	1974
9% % Debenture due December 31, 1988 repayable in annual instalments of \$500,000 February 1, 1976 to February 1, 1979 and \$600,000 thereafter	\$7,000,000	\$ —
6 1/4 % Debenture due June 30, 1981 repayable in annual instalments of \$245,000	—	1,985,000
7 1/4 % - 9 1/4 % Mortgages Payable due 1984 to 1986	179,283	186,387
	7,179,283	2,171,387
Less current instalments included in current liabilities	8,000	252,000
	<u>\$7,171,283</u>	<u>\$1,919,387</u>

Requirements for repayment of long-term debt amount to \$8,000 for the fiscal year ending January 31, 1976 and approximately \$508,000 for each of the four subsequent years.

The Debenture is secured by a fixed and floating charge on the Company's properties.

Under the agreement securing the 9% % Debenture, there are various restrictions affecting the payment of dividends. At January 31, 1975 consolidated retained earnings not subject to such restrictions were approximately \$750,000.

5. CAPITAL STOCK AND SHARE OPTIONS

During the year, 503 Preferred Shares (1974 - 843) were purchased on the market for cancellation. These shares are redeemable at \$103.

On July 9, 1971, July 25, 1972 and September 11, 1973, the Company granted options at \$3 1/8, \$7 7/8 and \$8 respectively, to certain officers (other than directors) and employees to purchase Class A Shares. The options are granted for six years and may be exercised as to 20% of the optioned shares on a cumulative basis, in each of the years commencing one year after the date of granting the option. During the year, options for 6,440 Class A Shares (including 3,400 to officers) at \$3 1/8, were exercised. As at January 31, 1975, options to purchase 49,500 Class A Shares at \$3 1/8, 12,720 Class A Shares at \$7 7/8 and 14,700 Class A Shares at \$8 were outstanding, of which 9,200 at \$3 1/8, 2,000 at \$7 7/8 and 1,000 at \$8 were to officers.

The exercise of the outstanding options would not result in a material dilution of earnings per share.

6. INVESTMENT IN TORCRED DEVELOPMENTS LIMITED

Torcred Developments Limited, a 50%-owned joint venture with a Canadian Chartered Bank, has erected a commercial office building in Regina. The shares of Torcred are carried on an equity basis which equals the cost of the Company's investment to January 31, 1975. The Company is contingently liable for a \$400,000 loan to Torcred and for 50% of any additional financing required to meet operating expenses. At the present time, it does not appear that such financing will be necessary.

7. LOANS TO EMPLOYEES

Employee share purchase loans of \$185,868 arose in connection with the Executive Stock Purchase Plan (other than directors) and Select Employees Stock Acquisition Program of the Company. These amounts are non-interest bearing and are due in annual instalments to 1979. The Company and its subsidiaries have made mortgage loans to certain officers (other than directors). The balance outstanding at January 31, 1975 amounted to \$198,555 of which \$175,000 was advanced during the year.

8. OTHER INFORMATION

The Company's eleven officers received \$540,000 remuneration as officers. The Company has five directors, two of whom received \$7,500 remuneration as directors. Three directors, who are also officers, received no remuneration as directors.

Subsequent to the year-end, the Company entered into an agreement with a Canadian Chartered Bank by which the Bank will provide a "Private Label Charge Card Service" for the Company's retail store customers and will purchase from the Company its retail store accounts receivable.

9. COMMITMENTS

A number of the Company's store locations are leased for periods from five to twenty years. Most of these leases are for minimum rentals and many contain percentage-of-sales clauses. The minimum annual rentals payable under all such leases currently in force totals \$2,229,000 and actual rentals in the year amounted to \$3,145,000.

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PEOPLES⁺

INTERIM REPORT
for the half year ended
JULY 27, 1974

PEOPLES JEWELLERS LIMITED

PEOPLES JEWELLERS LIMITED
AND SUBSIDIARY COMPANIES

1974 Half Year Report
(Unaudited)

CONSOLIDATED STATEMENT OF INCOME

Sales	
<i>Deduct:</i>	
Cost of merchandise sold and all other expenses except as below	
Depreciation and amortization	
Interest on long-term debt	
Interest on bank indebtedness	
Income before provision for income taxes	
Provision for income taxes	
Net income for the period	
Earnings per Class A and Common share	

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Funds were provided from:	
Operations:	
Net income for the period	
Add: Expenses which do not require an outlay of funds:	
Depreciation and amortization	
Issue of Class A shares under option	
Payment on loans for employee share purchases	
TOTAL FUNDS PROVIDED	
Funds were applied to:	
Purchase of fixed assets (net)	
Reduction of long-term debt	
Dividends	
Redemption of preferred shares	
TOTAL FUNDS APPLIED	
Decrease in working capital	
Working capital — beginning of period	
Working capital — end of period	

On behalf of the Board

BERTRAND GERSTEIN
MARVIN GERSTEIN

PEOPLES JEWELLERS LIMITED
REPORT TO SHAREHOLDERS

The accompanying interim report for the six months ended July 27, 1974 indicates consolidated sales of \$17,412,112, an increase of 39% over the comparable period last year. Net income for the period was \$648,334. Earnings per share were \$.212 as compared with \$.165, an increase of 28%.

A comparison with the first quarter report in which sales showed an increase of 30% and net income an increase of 4%, indicates a greater increase in both net income and sales in the second quarter.

The Company has continued its program of vigorous expansion during the period, opening seven new Peoples and four new Mappin's Stores for a total of seventeen Peoples and five Mappin's Stores so far this year. A further seven Peoples and four Mappin's Stores will be opened by year end. Thus at the present time we have a total of one hundred and fifty-four stores as compared with one hundred and thirty-two as at the beginning of the year.

The increase in our debenture with Prudential Insurance Company of America of \$5¼ Million referred to in my last report will be received during September and will provide for a reduction in bank borrowings, thus substantially strengthening the Company's financial position.

These results are most encouraging, particularly when one realizes that all pre-opening and opening expenses of new stores are expensed in the month in which they were incurred. This in conjunction with the fact that traditionally the greater part of our earnings are produced during the last half of the year, and more particularly in the last quarter, leads us to have every confidence that the Company will again show a substantial increase in both consolidated sales and net income for the current fiscal year.

Respectfully submitted on behalf of the Board.

BERTRAND GERSTEIN,
Chairman of the Board

Toronto, Canada
September 4, 1974

Twenty-six Weeks Ended July 27, 1974	July 28, 1973
\$17,412,112	\$12,549,284

15,144,077	11,057,706
443,061	263,965
68,533	.76,465
458,107	118,517
16,113,778	11,516,653
1,298,334	1,032,631
650,000	527,000
\$ 648,334	\$ 505,631
\$.212	\$.165

Twenty-six Weeks Ended July 27, 1974	July 28, 1973
\$ 648,334	\$ 505,631

443,061	263,965
1,091,395	769,596
17,625	26,763
43,055	88,311
1,152,075	884,670

1,326,533	1,757,744
248,480	248,204
310,532	310,449
24,000	62,600
1,909,545	2,378,997
757,470	1,494,327
10,240,979	11,592,962
\$ 9,483,509	\$10,098,635